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SUBJECT: YUNNAN'S BORDER TRADE: HEKOU AND MOHAN GEAR UP FOR INCREASED YUNNAN TRADE WITH SOUTHEAST ASIA

REF: A) CHENGDU 044, B) 07 CHENGDU 124 C) FBS20100226266416

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**¶1.** (U) This cable contains sensitive but unclassified information - not for distribution on the Internet.

**¶2.** (U) Summary: Yunnan's main land ports with Vietnam and Laos -- Hekou and Mohan -- are both preparing for significant increases in trade and travel flows with the January 1, 2010 entry-into-force of the China-ASEAN Free Trade Agreement (CAFTA). With the building of major new highways, travel to these crossing points has become much faster and more reliable over the last two years, and both have invested in expanding their port facilities and other infrastructure. Hekou, already a well-established and moderately busy port, appears more likely to benefit quickly from expanding trade. While Mohan's officials are enthusiastically encouraging extensive infrastructure expansion, trade on the China-Lao border remains very sparse. Photos from the port visits can be viewed at [tinyurl.com/YunnanPorts](http://tinyurl.com/YunnanPorts). End Summary.

**¶3.** (U) Consul General and PolEconoffs made a week-long, January 17-23 road trip to Kunming, Yunnan's capital, and to areas of Yunnan Province bordering Vietnam and Laos. Ref A discusses Yunnan's overall trade with ASEAN, especially in light of the January 1 CAFTA launch. This cable describes visits to two of the main land ports through which Yunnan's trade with ASEAN flows: Hekou on the Vietnam border, and Mohan on the border with Laos and on the main land route to Thailand. (The third main land port for Yunnan is Ruili, on the border with Burma.)

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**¶II.** Hekou: Border Town on the Red River With Frontier Flavor  
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**¶4.** (U) Hekou sits on the banks of the Red River (Hong He), across from the Vietnamese town of Lao Cai, which was one of three main entry points for China's invasion during the 1979 war between the two countries. Trade has steadily increased since the border was formally reopened in 1993, but as late as 2007 visiting Congenoffs were awoken by strains of "The East is Red" being blasted across the border toward Lao Cai, from whence, in turn, patriotic Vietnamese songs were broadcast into Hekou (Ref **¶1B.** During our January travel the loudspeakers were not to be heard, perhaps reflecting warmer, more pragmatic ties between Beijing and Hanoi.)

**¶5.** (U) This trip on the new highway from Mengzi, the capital of Honghe Hani and Yi Autonomous Prefecture, 128 kilometers north, can now be done in about two hours, less than half of the travel time required before. However, though intended as a main transport artery for the flow of increasing trade between China

and its Southeast Asian neighbors, the new road remains sparsely used. Traffic in both directions was light: a mix of passenger sedans, buses, and cargo trucks. The old road remains open and continues to be used by locals travelling between points in between. A few kilometers outside of Hekou, looking across the river into Vietnam from our route, we could see parallel construction of a new road underway there.

¶6. (U) Hekou today is clearly a town oriented around a well-established, bustling cross-border trade, and something of a Chinese-Vietnamese hybrid. Most signs -- on business and government buildings -- were written in both languages. Plenty of stores sold a range of standard cheap Chinese goods, while the central covered market was filled with low-quality Vietnamese goods -- baskets, ornate knives, kitchen supplies, and miscellaneous decorative items. Also on sale were plenty of tropical fruit and various other food items from Vietnam. Most of the sellers in the market were from Vietnam and mostly unable (or unwilling) to converse in Mandarin. One seller, in halting and basic Mandarin, explained that she had come to Hekou from Vietnam three years ago with her family of four to try to make a better living -- they had not been able to return so far, though it was not clear whether this was due to illegal migrant status or lack of economic means.

Sex Trade and Drugs (Well, Moonshine Actually)

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¶7. (SBU) As previously observed in 2007, the town also appeared to have a thriving sex industry. On the next level up from the indoor market area, we saw rows of barely disguised brothels. At the market below, there was the occasional sex toy for sale incongruously displayed among miscellaneous daily use items. A Public Security Bureau officer, during our official briefing, confirmed that a number of women and girls from Vietnam -- mostly from the poorer mountainous areas -- are trafficked to Yunnan each year, while others cross the border illegally

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seeking jobs or marriage. He did not have detailed numbers, but confirmed only that such cases occurred every year. He emphasized good working relationships between police on both sides of the border, citing in particular a joint anti-Trafficking in Persons (TIP) liaison office set up in 2004.

On a day-to-day level, he said, Vietnamese police who receive reports of missing Vietnamese girls will often send notes to the police in Hekou requesting assistance, and the Hekou police then send out officers to search for them.

¶8. (SBU) A more relaxed frontier sensibility was also displayed by our hosts, who treated us to the most boisterous and informal banquet of the many experienced on the trip. At our welcoming lunch they already brought out the local corn liquor -- a more caustic and volatile version of the traditional "baijiu" -- insisting on several rounds of toasts to kick off the afternoon.

The corn liquor flowed even more freely over dinner, where the mayor's young pretty female "secretary" joined the group with the apparent sole mission of encouraging overconsumption.

An Overview of the Port Economy: Increasingly Large Scale, With Some Ocean Transshipment to Third Countries

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¶9. (SBU) During our formal briefing by local officials, Vice Mayor Wei Zhengfang provided an overview of Hekou's port economy. He described it as an important border port, the biggest in Yunnan, accounting for 80 percent of the value of the province's trade with Vietnam. In both 2008 and 2009 a greater volume of goods flowed through Hekou than any other land port in Yunnan. (However, Ruili -- on the border with Burma -- continued to surpass it in the value of trade.) The balance of trade going through the port has shifted considerably over the years. Chinese exports outnumbered Vietnamese imports more than ten to one in 2001, but this proportion has gone down to approximately three to one at present, he said.

¶10. (SBU) The nature of the traders has also shifted over the years, he continued. In the early 1990s all border trade through Hekou was carried out by individuals, but by later in that decade, larger players had started to participate. By 2001, about 65 companies were trading through Hekou, and today there are 187 companies registered to conduct trade there. While a majority of exports go to Vietnam, a portion of the exports from China are now transshipped to a handful of destinations beyond Vietnam, he reported, including the United States, Japan, the United Kingdom and Germany. The main commodities exported via the Hekou include building materials, fertilizer, daily necessities, and produce; the main commodities being imported include mineral ores, agricultural products, and wood. Mr. Wei did not know what proportion of imports or exports handled in Hekou were coming from or going to other provinces outside of Yunnan.

Hekou Port: Two Old, Smaller Rail/Road Bridges, Mix of Pedestrian and Truck Trade

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¶11. (SBU) Currently a single bridge, able to accommodate both foot and truck traffic, serves as the main conduit of goods flowing between Hekou and Lao Cai. Additionally, several hundred meters away, rail cargo between Kunming and Hanoi can still cross over an old narrow gauge railway bridge, originally built by the French about 100 years ago. At the traffic bridge, a steady flow of traffic moved in both directions during our visit -- a mix of cargo trucks, tricycles with platforms piled so high with goods they often required several people to push them slowly along, and miscellaneous individuals. Most of the trucks we saw appeared to be carrying produce. The tricycle exporters carried dried beans and fresh vegetables, household goods, and various building materials-- mostly large ceramic tiles. Current China-Vietnam border trade rules allow tariff-free trade by individuals up to the amount of goods that can be piled on a three-wheeled (non-motor-powered) bike, officials told us.

¶12. (SBU) Lined up behind the Entry and Exit Inspection Center, on a street off of the bridge entrance, were dozens of the tricycles, piled with bags and boxes, waiting for inspection. In a separate area, people were busily unloading and reloading about half a dozen trucks filled with non-tropical fruit (apples, pears, oranges) bound for Vietnam. Only Hekou-plated trucks are allowed across the bridge, so trucks arriving with goods from other parts of China had to transfer their loads before entering Vietnam. We saw trucks from Shaanxi, Jiangsu, Henan, and Sichuan either in the process of unloading or lined up waiting to do so.

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¶13. (SBU) Our Yunnan Province Foreign Affairs Office handler, Gu Qiong (who accompanied us throughout our entire Yunnan journey) explained that all vehicles carrying goods in either direction must go through two checkpoints, one on each side of the border. Negotiations are underway that include discussion of either establishing joint inspections or agreeing to mutually recognize one another's inspections, but these are taking place at the national level, she said, noting that neither Hekou nor Yunnan officials were involved. She was uncertain regarding how much progress had been made on these discussions, conveying her impression that the difficulties mostly lay on the Vietnamese side, where "too many departments" were involved.

Plans for the Future:  
A New Bridge and a Free Trade Border Zone

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¶14. (SBU) A few kilometers upstream, a new bridge stands still empty, with a large and impressive looking port building. A joint Chinese-Vietnamese project, construction began in June 2007 and was completed last year, explained Mayor Wei. The 295 meter long bridge will be put into operation "soon," he said, and is primarily intended for heavy cargo truck traffic, with

the existing bridge focusing, in the future, on pedestrian, bi/tri cycle, and small vehicle trade. A large truck parking lot and a new railway connection hub are being built just next to the new port building, which also lies closer to the highway.

¶115. (SBU) Wei also described a new China-Vietnam Free Trade Border Zone that he said both governments have agreed to in principle. It is to consist of two parts, he explained, one in Bashan Development Zone in Hekou with an area of 25 square kilometers, and the other in Laojie, Vietnam with an area of 160 hectares. Further detailed planning, construction and management must still be worked out by both sides, however, "which will take a long time."

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II. Mohan: Gateway to Future Trade with Thailand?  
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¶116. (U) The Chinese land port of Mohan straddles the new Kunming-Bangkok Highway as it enters Laos. While China-Lao trade remains limited, the road's importance as a potential gateway for China-Thailand trade is indisputable. However, this remains a matter of future potential rather than present reality.

¶117. (U) Travelling to Mohan took two and a half hours from Jinhong, the capital of Xishuangbanna Dai Autonomous Prefecture, along the new Kunming-Bangkok Highway, more than halving the previous driving time. Traffic along this route was even sparser than the Mengzi to Hekou route, with much of the road flanked by banana and rubber tree plantations. (Note: Our drivers told us that the Lao-Thai border could be reached with another three hours' drive. End Note.) Despite a flurry of recent building projects, we found that Mohan still remains a sleepy, small town.

¶118. (SBU) Our official meeting with Zheng Biwu, Mohan's Vice Party Secretary, was arguably the most content-free in our Yunnan travels. He gave a general overview of Mohan's port history: the port was set up in 1993, the border market in 2001, and the economic development zone in 2006. Previously a mere town, Mohan has been upgraded to a "special county-level district" directly under the government of Xishuangbanna. He explained that the China-Thailand trade flowing through the Mohan port remains small -- about USD 20 million in 2009 -- but has increased by about 10 percent annually over the last five years. (Note: According to official numbers published by the Yunnan Department of Commerce, Yunnan-Thai trade was down by 6.2 percent in 2009. It is, however, possible that trade continued to increase via Mohan despite the overall decrease. End Note.)

At the Port: One Truck, One Bus, and Not Much Else  
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¶119. (SBU) Proceeding to the border, we were shown a very new, clean, and modern port facility. While noting that it was a Saturday, and that there may be more activity during weekdays, it was a remarkably quiet border crossing. During a half-hour visit, we saw about a dozen people going through the immigration processing, along with one truck and one bus coming into China. Party Secretary Zheng was notably unhelpful, presenting various excuses to not let us speak with any PSB officials there -- the

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least credible being simply that they were "too busy." When we asked whether we could walk further up toward the actual border, he proclaimed that the "police will stop you." (We particularly noted the contrast to Hekou, where local officials arranged on short notice both to include a PSB officer in our official briefing and for a walk "across the border" and a few meters into Vietnamese territory by walking out to the center and beyond of both the old and new road bridges and the railway bridge, with no objection whatsoever from police on either side of the border.)

¶20. (SBU) Although a dramatic increase of traffic along the Kunming-Bangkok highway has not yet materialized, Mohan appears to be intent on being prepared when it does. The stretch of road heading into the town and border crossing area was scattered with several large-scale construction zones, including a massive long-distance bus station, a logistics center, and a rather extravagant new government building. The bus station is an investment by a company from Pu'er (a mid-sized town further North, named for Yunnan's famous tea) that runs the long-distance station there, Zheng told us. In addition, he said, private investors are planning to build several new hotels. When asked where the business would come from to use such a bus station and fill the new hotels, he said investors are expecting a new flow of Chinese (and perhaps Thai) tourists taking advantage of new roads and improved infrastructure to travel between China and Thailand.

¶21. (U) Photos of both ports are posted at [tinyurl.com/YunnanPorts](http://tinyurl.com/YunnanPorts) or see Ref C.

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